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April 15, 2009

Mr. David Reese  
Chief Financial Officer  
Arizona Department of Health Services  
Division of Behavioral Health Services  
150 N. 18th Avenue, Suite 200  
Phoenix, AZ 85007

**Final and Confidential**

**Subject:** Behavioral Health Services State Fiscal Year 2010 Capitation Rates for the Title XXI and HIFA II Programs

Dear Mr. Reese:

**Introduction/Background**

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2010 (SFY10). Rates were developed for the Title XXI and HIFA II programs.

The State Children's Health Insurance Program (SCHIP), titled "KidsCare" and also known as Title XXI, provides health insurance to uninsured children under 19 years of age whose family's gross income is at or below 200 percent of the federal poverty level. The KidsCare benefit package is identical to what is offered to TXIX Medicaid members.

There are four RBHAs for which actuarially sound capitation rates were developed, covering six geographic service areas. They include:

RBHA	Areas Served
Community Partnership of Southern Arizona (CPSA3 and CPSA5)	Pima, Graham, Greenlee, Santa Cruz and Cochise Counties
Cenpatico Behavioral Health of Arizona (Cenpatico 2 and Cenpatico 4)	Yuma, LaPaz, Pinal and Gila Counties

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RBHA	Areas Served
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo and Yavapai Counties
Magellan Health Services (MHS)	Maricopa County

Actuarially sound capitation rates were developed for each of the following population and RBHA combinations, shown in the tables below.

## Title XXI

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
Children	\$ 22.48	\$ 32.34	\$ 28.00	\$ 20.13	\$ 33.79	\$ 17.37	\$ 21.22
SMI	\$ 14.41	\$ 19.25	\$ 17.41	\$ 11.86	\$ 14.39	\$ 33.07	\$ 24.13

## HIFA II

Population	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
SMI	1.40	7.02	0.95	4.33	1.40	7.58	5.90
GMH/SA	10.41	20.92	9.21	10.87	20.71	11.28	13.12

The rate development schedules are shown in Attachment A.

## Base Costs

Mercer has developed capitation rates for the Title XXI and HIFA II populations for SFY10. Because the membership in these populations is quite low, encounter data from their claims is not sufficient. Based upon review of historical financial statements, Title XXI individuals' claim costs generally represent about 30 – 36 percent of Title XIX claim costs. Based on this observation, BHS and Mercer agreed to use the Title XIX claim cost per-member-per-month (PMPM) values as the base data for the Title XXI rates.

From these base PMPMs, Mercer applied an acuity adjustment factor to the PMPMs to derive the Title XXI capitation rates. The overall acuity adjustment factors were 0.36 for Children and 0.33 for the SMI population. The individual RBHA acuity factors varied. They were adjusted based on symmetrical bands of medical loss ratio (MLR) experience for each RBHA. A final adjustment was applied to make the entire process budget neutral.

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Similar to the Title XXI rates, Mercer used the Title XIX claim cost PMPMs as the base PMPM for the HIFA II capitation rates. From there, an overall acuity adjustment factor of 0.08 was applied to the SMI population, and 0.32 was applied to the GMH/SA population. As with the Title XXI rate development, individual RBHA factors were adjusted based on symmetrical bands of MLR experience. A final adjustment was applied to make the entire process budget neutral.

## **Administration and Underwriting Profit/Risk/Contingency**

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer also reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A 9 percent load was added across all populations, which is 1 percent less than the load applied for SFY09 rates.

## **Risk Corridors and Performance Incentive**

BHS has in place a risk corridor arrangement with the RBHAs that provides motivation for the RBHAs to appropriately manage expenses, yet provides financial protection against unmanageable losses. The risk corridor provides impetus for the RBHAs to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State.

The proposed SFY10 BHS risk corridor approach provides for gain/loss risk sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHA contract also provides for a potential one percent performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

## **Tribal Fee-For-Service Claims Estimate**

Mercer received tribal claims and membership data from BHS for SFY08 through SFY09. This data was reviewed, projected, and trended forward. BHS also provided additional information related to FFS rate decreases that would affect tribal claims. Based on this information, Mercer and BHS projected that Title XXI tribal claim costs for SFY10 will be

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approximately \$735,875 and the HIFA II tribal claim costs for SFY10 will be approximately \$429,038.

## **BHS Administration/Risk/Contingency**

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY10. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 3.50 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment.

## **Development of Statewide Capitation Rates**

Statewide capitation rates were developed by blending the SFY10 capitation rates for each RBHA using projected SFY10 member months, the estimated amount of SFY10 tribal claims and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

## **Certification of Final Rates**

In preparing the rates shown above and attached, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness but we did not audit it. In our opinion it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the above and attached rates, including risk-sharing mechanisms, incentive arrangements, or other payments, were developed in accordance with generally accepted actuarial practices and principles and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

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Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the Centers for Medicare and Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules, and actuarial rating techniques. It is intended for BHS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

If you have any questions concerning our rate-setting methodology, please feel free to contact me at 602 522 6510.

Sincerely,

Michael E. Nordstrom, ASA, MAAA

Copy:  
Cynthia Layne, ADHS  
Sundee Easter, Mercer  
Bryan Wong, Mercer  
Rob O'Brien, Mercer

Enclosures  
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**Attachment A**  
**SFY10 DBHS Capitation Rates**  
**Title XXI & HIFA II**

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	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Magellan	Total
<b>Title XXI - Children</b>							
1. SFY08 Member Months	23,957	97,768	32,217	85,295	26,723	410,075	676,035
2. T-19 SFY10 Claim Costs	\$ 58.93	\$ 84.78	\$ 52.85	\$ 48.71	\$ 75.93	\$ 45.53	\$ 53.63
3. Acuity Factor	0.347	0.347	0.482	0.376	0.405	0.347	0.360
4. Base SFY10 Claim Costs	\$ 20.45	\$ 29.43	\$ 25.48	\$ 18.32	\$ 30.75	\$ 15.80	\$ 19.31
5. Administrative Load and Underwriting Profit	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
6. Capitation Rates SFY10	\$ 22.48	\$ 32.34	\$ 28.00	\$ 20.13	\$ 33.79	\$ 17.37	\$ 21.22
7. Current Rates SFY09	\$ 20.30	\$ 29.08	\$ 20.86	\$ 18.03	\$ 31.16	\$ 16.60	\$ 19.50
8. Change in Rates	10.8%	11.2%	34.2%	11.6%	8.4%	4.6%	8.8%
<b>Title XXI - SMI</b>							
1. SFY08 Member Months	1,098	3,455	1,374	2,714	707	8,613	17,961
2. T-19 SFY10 Claim Costs	\$ 45.04	\$ 60.18	\$ 30.62	\$ 37.09	\$ 44.99	\$ 88.63	\$ 66.55
3. Acuity Factor	0.291	0.291	0.517	0.291	0.291	0.340	0.330
4. Base SFY10 Claim Costs	\$ 13.11	\$ 17.52	\$ 15.85	\$ 10.80	\$ 13.09	\$ 30.09	\$ 21.96
5. Administrative Load and Underwriting Profit	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
6. Capitation Rates SFY10	\$ 14.41	\$ 19.25	\$ 17.41	\$ 11.86	\$ 14.39	\$ 33.07	\$ 24.13
7. Current Rates SFY09	\$ 14.67	\$ 21.50	\$ 9.34	\$ 14.06	\$ 15.94	\$ 31.26	\$ 23.49
8. Change in Rates	-1.8%	-10.5%	86.5%	-15.6%	-9.7%	5.8%	2.7%

	CPSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	Magellan	Total
<b>HIFA II - SMI</b>							
1. SFY08 Member Months	7,527	23,506	8,788	22,158	6,003	67,441	135,423
2. T-19 SFY10 Claim Costs	\$ 45.04	\$ 60.18	\$ 30.62	\$ 37.09	\$ 44.99	\$ 88.63	\$ 67.14
3. Acuity Factor	0.028	0.106	0.028	0.106	0.028	0.078	0.080
4. Base SFY10 Claim Costs	\$ 1.27	\$ 6.39	\$ 0.87	\$ 3.94	\$ 1.27	\$ 6.90	\$ 5.37
5. Administrative Load and Underwriting Profit	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
6. Capitation Rates SFY10	\$ 1.40	\$ 7.02	\$ 0.95	\$ 4.33	\$ 1.40	\$ 7.58	\$ 5.90
7. Current Rates SFY09	\$ 4.17	\$ 6.88	\$ 3.32	\$ 5.00	\$ 4.53	\$ 10.53	\$ 7.90
8. Change in Rates	-65.4%	2.0%	-71.3%	-13.4%	-69.1%	-28.0%	-25.3%
<b>HIFA II - GMH/SA</b>							
1. SFY08 Member Months	7,527	23,506	8,788	22,158	6,003	67,441	135,423
2. T-19 SFY10 Claim Costs	\$ 28.04	\$ 48.30	\$ 40.61	\$ 25.11	\$ 55.80	\$ 36.46	\$ 37.32
3. Acuity Factor	0.338	0.394	0.206	0.394	0.338	0.282	0.320
4. Base SFY10 Claim Costs	\$ 9.47	\$ 19.04	\$ 8.38	\$ 9.89	\$ 18.85	\$ 10.26	\$ 11.94
5. Administrative Load and Underwriting Profit	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
6. Capitation Rates SFY10	\$ 10.41	\$ 20.92	\$ 9.21	\$ 10.87	\$ 20.71	\$ 11.28	\$ 13.12
7. Current Rates SFY09	\$ 9.53	\$ 15.58	\$ 14.53	\$ 9.13	\$ 18.18	\$ 11.40	\$ 12.16
8. Change in Rates	9.2%	34.3%	-36.6%	19.1%	14.0%	-1.1%	7.9%

## Statewide TXXI Rate for All Children

RBHA	Col. 1 Projected SFY10 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	19,516	\$ 22.48	\$ 438,658	\$ 22.25	\$ 434,272	\$ 22.70	\$ 443,045
CPSA 5	72,868	\$ 32.34	\$ 2,356,398	\$ 32.01	\$ 2,332,834	\$ 32.66	\$ 2,379,962
Cenpatico 2	28,327	\$ 28.00	\$ 793,074	\$ 27.72	\$ 785,143	\$ 28.28	\$ 801,004
NARBHA	65,124	\$ 20.13	\$ 1,310,765	\$ 19.93	\$ 1,297,657	\$ 20.33	\$ 1,323,873
Cenpatico 4	26,459	\$ 33.79	\$ 894,055	\$ 33.45	\$ 885,114	\$ 34.13	\$ 902,995
Magellan	368,077	\$ 17.37	\$ 6,391,733	\$ 17.19	\$ 6,327,816	\$ 17.54	\$ 6,455,650
Tribes			\$ 712,401		\$ 712,401		\$ 712,401
Subtotal	580,371		\$ 12,897,084		\$ 12,775,237		\$ 13,018,930
BHS Administration/R/C of 3.50%			\$ 467,401		\$ 462,985		\$ 471,816
Total with BHS Administration/R/C			\$ 13,364,485		\$ 13,238,222		\$ 13,490,746
Statewide Capitation Rate			\$ 23.03		\$ 22.81		\$ 23.25

## Statewide TXXI Rate for SMI

RBHA	Col. 1 Projected SFY10 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	457	\$ 14.41	\$ 6,584	\$ 14.26	\$ 6,518	\$ 14.55	\$ 6,650
CPSA 5	1,893	\$ 19.25	\$ 36,436	\$ 19.06	\$ 36,071	\$ 19.44	\$ 36,800
Cenpatico 2	652	\$ 17.41	\$ 11,353	\$ 17.24	\$ 11,240	\$ 17.59	\$ 11,467
NARBHA	2,312	\$ 11.86	\$ 27,426	\$ 11.74	\$ 27,152	\$ 11.98	\$ 27,701
Cenpatico 4	423	\$ 14.39	\$ 6,087	\$ 14.25	\$ 6,026	\$ 14.53	\$ 6,148
Magellan	9,938	\$ 33.07	\$ 328,662	\$ 32.74	\$ 325,375	\$ 33.40	\$ 331,949
Tribes			\$ 23,474		\$ 23,474		\$ 23,474
Subtotal	15,675		\$ 440,022		\$ 435,856		\$ 444,189
BHS Administration/R/C of 3.50%			\$ 15,947		\$ 15,796		\$ 16,098
Total with BHS Administration/R/C			\$ 455,969		\$ 451,652		\$ 460,287
Statewide Capitation Rate			\$ 29.09		\$ 28.81		\$ 29.36



## Statewide HIFA II Rate for SMI

RBHA	Col. 1 Projected SFY10 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	4,723	\$ 1.40	\$ 6,616	\$ 1.39	\$ 6,550	\$ 1.41	\$ 6,682
CPSA 5	14,431	\$ 7.02	\$ 101,277	\$ 6.95	\$ 100,264	\$ 7.09	\$ 102,290
Cenpatico 2	5,129	\$ 0.95	\$ 4,885	\$ 0.94	\$ 4,836	\$ 0.96	\$ 4,934
NARBHA	15,114	\$ 4.33	\$ 65,373	\$ 4.28	\$ 64,719	\$ 4.37	\$ 66,027
Cenpatico 4	5,008	\$ 1.40	\$ 7,007	\$ 1.39	\$ 6,937	\$ 1.41	\$ 7,077
Magellan	48,978	\$ 7.58	\$ 371,229	\$ 7.50	\$ 367,517	\$ 7.66	\$ 374,942
Tribes			\$ 292,848		\$ 292,848		\$ 292,848
Subtotal	93,383		\$ 849,235		\$ 843,671		\$ 854,800
BHS Administration/R/C of 3.50%			\$ 30,777		\$ 30,576		\$ 30,979
Total with BHS Administration/R/C			\$ 880,012		\$ 874,247		\$ 885,779
Statewide Capitation Rate			\$ 9.42		\$ 9.36		\$ 9.49

## Statewide HIFA II Rate for GMH/SA

RBHA	Col. 1 Projected SFY10 Member Months	Best Estimate		Low End of Rate Range		High End of Rate Range	
		Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars	Col. 2 Proposed Rates	Col. 1 x Col. 2 Total Dollars
CPSA 3	4,723	\$ 10.41	\$ 49,156	\$ 10.30	\$ 48,664	\$ 10.51	\$ 49,647
CPSA 5	14,431	\$ 20.92	\$ 301,884	\$ 20.71	\$ 298,865	\$ 21.13	\$ 304,903
Cenpatico 2	5,129	\$ 9.21	\$ 47,259	\$ 9.12	\$ 46,787	\$ 9.31	\$ 47,732
NARBHA	15,114	\$ 10.87	\$ 164,343	\$ 10.76	\$ 162,699	\$ 10.98	\$ 165,986
Cenpatico 4	5,008	\$ 20.71	\$ 103,738	\$ 20.51	\$ 102,701	\$ 20.92	\$ 104,776
Magellan	48,978	\$ 11.28	\$ 552,425	\$ 11.17	\$ 546,901	\$ 11.39	\$ 557,949
Tribes			\$ 136,190		\$ 136,190		\$ 136,190
Subtotal	93,383		\$ 1,354,995		\$ 1,342,807		\$ 1,367,183
BHS Administration/R/C of 3.50%			\$ 49,106		\$ 48,664		\$ 49,548
Total with BHS Administration/R/C			\$ 1,404,101		\$ 1,391,471		\$ 1,416,731
Statewide Capitation Rate			\$ 15.04		\$ 14.90		\$ 15.17

**Attachment C**  
**SFY10 DBHS Capitation Rates**  
**Projection of Expenditures**  
**Title XXI/HIFA II**

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Note: This section uses SFY10 Projected Member Months applied to both SFY09 and SFY10 Rates.

	SFY09	Statewide Rates SFY10			SFY10 Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
TXXI												
Children	\$ 20.82	\$ 23.03	\$ 22.81	\$ 23.25	580,371	\$ 12,083,217	\$ 13,364,485	\$ 13,238,222	\$ 13,490,746	10.6%	9.6%	11.6%
SMI	\$ 27.04	\$ 29.09	\$ 28.81	\$ 29.35	15,675	\$ 423,777	\$ 455,969	\$ 451,652	\$ 460,287	7.8%	6.6%	8.6%
Total						\$ 12,506,994	\$ 13,820,454	\$ 13,689,874	\$ 13,951,033	10.5%	9.5%	11.5%
	SFY09	Statewide Rates SFY10			SFY10 Projected MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High
		Best Estimate	Low	High			Best Estimate	Low	High			
HIFA II												
SMI	\$ 10.33	\$ 9.42	\$ 9.36	\$ 9.49	93,383	\$ 964,490	\$ 880,012	\$ 874,247	\$ 885,779	-8.8%	-9.4%	-8.2%
GMH/SA	\$ 13.28	\$ 15.04	\$ 14.90	\$ 15.17	93,383	\$ 1,240,127	\$ 1,404,101	\$ 1,391,471	\$ 1,416,731	13.2%	12.2%	14.2%
Total						\$ 2,204,618	\$ 2,284,113	\$ 2,265,718	\$ 2,302,510	3.6%	2.8%	4.4%
Grand Total						\$ 14,711,612	\$ 16,104,567	\$ 15,955,592	\$ 16,253,543	9.5%	8.5%	10.5%

Note: This section uses SFY09 Actual/Projected Member Months applied to SFY09 Rates, and SFY10 Projected Member Months applied to SFY10 Rates.

	Statewide Rates SFY10			Actual/Projected SFY09 MMs	SFY09	Total Projected Expenditures SFY10			Percent Change Best	Percent Change Low	Percent Change High	
	Best Estimate	Low	High			Best Estimate	Low	High				
TXXI												
Children	\$ 20.82	\$ 23.03	\$ 22.81	\$ 23.25	717,571	\$ 14,939,696	\$ 13,364,485	\$ 13,238,222	\$ 13,490,746	-10.5%	-11.4%	-9.7%
SMI	\$ 27.04	\$ 29.09	\$ 28.81	\$ 29.36	20,722	\$ 560,224	\$ 455,969	\$ 451,652	\$ 460,287	-18.6%	-19.4%	-17.8%
Total						\$ 15,499,919	\$ 13,820,454	\$ 13,689,874	\$ 13,951,033	-10.8%	-11.7%	-10.0%
					SFY10 Projected MMs							
					580,371							
					15,675							